

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 SAM-01 SAB-01 IO-10 AID-05

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5949

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY TOKYO

AMEMBASSY TEHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY BEIRUT

AMEMBASSY PARIS

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E.O. 11652: NA

TAGS: EGEN EFIN EG EAID

SUBJECT: EGYPTIAN DEBT REPAYMENT AND POLICY

BEGIN UNCLASSIFIED

1. IN A FRONT PAGE ARTICLE ON AUGUST 15, AL AHAM ECONOMIC EDITOR SAID, WITHOUT CITING SOURCE, THAT DURING LAST 4 MONTHS EGYPT HAS SETTLED DEBTS TOTALLING \$1,184 MILLION. PAYMENTS WERE FOR COMMERCIAL BANK FACILITIES, SUPPLIER CREDITS, PAYMENTS TO INTERNATIONAL ORGANIZATIONS, "EXPENDITURES FOR INVISIBLES" AND VARIOUS OTHER EXPENSES. EDITOR CONCLUDED THAT THESE

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OBLIGATIONS WERE COVERED BY LOANS EXTENDED BY "SOME ARAB NATIONS".

2. A PORTION OF ARTICLE ATTRIBUTED TO MINFIN ABU ISMAIL OUTLINED EXTERNAL FINANCIAL POLICY FOR REMAINDER OF YEAR AS FOLLOWS:

A. SUFFICIENT CASH BALANCES WILL BE SET ASIDE, IN ADDITION TO CONCESSIONARY LOANS, OTHER ASSISTANCE FROM FRIENDLY COUNTRIES, AND PROCEEDS FROM VISIBLE EXPORTS, TO COVER EGYPTIAN NEEDS UNTIL END OF 1975.

B. IN LANGUAGE THAT IS NOT CLEAR, FINMIN INDICATED THAT DECISION HAD BEEN MADE TO LIMIT RENEWAL OF COMMERCIAL BANKING FACILITIES EXTENDED FROM ABROAD TO 75 PERCENT OF THEIR FORMER LEVEL.

C. CITING CURRENT NEGOTIATIONS WITH USSR HE INDICATED THAT EGYPT IS ATTEMPTING TO PROLONG THE GRACE PERIOD OF LOANS, I.E. "POSTPONING DEBT SETTLEMENT TO FUTURE YEARS WHEN TAKE-OFF OF EGYPTIAN ECONOMY WILL BE REALIZED". END UNCLASSIFIED
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3. COMMENT: JUDGING FROM PAYMENT CATEGORIES CITED, AL AHRAH HAS SUMMARIZED TRANSACTIONS UNDER "CASH PAYMENT" SECTION OF FOREIGN EXCHANGE BUDGET OVER PAST 4 MONTHS, COMING UP WITH A NUMBER CONVENIENTLY CLOSE TO \$1.1 BILLION AD HOC AID EXTENDED DURING LAST SEVERAL MONTHS BY SAUDI ARABIA AND KUWAIT. ACCORDING TO WEEKLY STATEMENT OF CENTRAL BANK, FIRST INSTALLMENT OF NEW SAUDI/KUWAITI AID WAS NOT DEPOSITED UNTIL JULY 3 AND SOME OF IT UNDOUBTEDLY HAS BEEN USED TO BUILD UP RESERVE FUND CITED ABOVE. MOST RECENT FIGURE WE HAVE ON EGYPTIAN SHORT TERM LIABILITIES IS LE 910 MILLION (ABOUT \$2.3 BILLION). THIS FIGURE WAS USED BY ABU ISMAIL IN CONVERSATION WITH CONLOFF ON AUGUST 10. THIS SUGGESTS THAT AT LEAST \$400 MILLION OF ARAB AID WAS USED TO REDUCE TOTAL SHORT TERM OBLIGATIONS FROM \$2.7 BILLION PEAK CITED BY IBRD FOR END OF 1974.

4. ON SUBJECT OF GRACE PERIOD PROLONGATION, SOVIET CASE WAS NOTABLY POOR EXAMPLE SINCE ALL INDICATIONS ARE THAT NEGOTIATIONS
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GOING BADLY FOR EGYPTIANS. IS IT NOT IMPOSSIBLE THAT NEW DONORS WILL FOLLOW SAUDI/KUWAITI EXAMPLE AND PROVIDE LONG GRACE PERIODS, BUT ON OTHER HAND, ARAB TERMS HAVE STIFFENED COMPARED TO OUTRIGHT GRANTS OF OTHER YEARS.

5. IT IS VERY DIFFICULT TO GUESS MEANING OF 75 PERCENT REDUCTION IN SHORT TERM CREDIT OBLIGATIONS. FOREIGN EXCHANGE BUDGET RECENTLY PROVIDED BY DEPT PROJECTS A \$400 MILLION INCREASE IN 1975 OVER 1974 YEAREND FIGURE. IBRD RECOMMENDS A REDUCTION AT YEAREND TO 2.3 BILLION, OR NO INCREASE OVER PRESENT LEVEL. A 25 PERCENT

REDUCTION FROM THE 1974 YEAREND LEVEL WOULD REQUIRE A \$300
MILLION CUT BY END OF 1975. IT IS NOT CLEAR WHERE REQUISITE
CASH WILL COME FROM, BUT WITH INTEREST RATES RUNNING AS HIGH
AS 27 PERCENT ON SHORT TERM CREDIT IT IS HEARTENING TO NOTE IN PUBLIC
PRONOUNCEMENTS THAT FINANCE MINISTER'S INTENTIONS ARE GOOD.
SO FAR EGYPT PROBABLY HAS PAID OFF SOME OF ITS MOST GREVIOUS SHORT
TERM OBLIGATIONS (IN TERMS OF INTEREST RATES).
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